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Real Estate Economists, Appraisers and Counselors

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REAL ESTATE AND MORTGAGE ACTIVITY BY REGIONS

As pointed out in the April Trends Bulletin, real estate activity for March was below our long-term computed normal. This is a change, as for a period of 14 years real estate activity in the United States has averaged above our normal line.

There is considerable difference in real estate activity in various sections of the United States, and we believe that whenever any index is showing a significant change this index should be studied in detail. On the pages that follow, therefore, we have charted our indexes of real estate and mortgage activity by regions. It is rather interesting to note that real estate activity in New England is following a more consistent pattern and is higher above our normal line than it is in some of the areas in which we naturally assume that the real estate boom is of greater proportions. The Southwest dropped below normal on our index in the early part of 1952, and at the present time is more than 20% subnormal. Our West Coast index dropped below normal in 1951, and at the present time is more than 15% below normal.

In studying these charts it should be remembered that real estate activity figures are charted above and below the normal line for each region. This normal line is based on the long-range average of the past of that area. The West Coast region, with a long history of high-volume real estate sales, has a much higher normal line than has the New England region, where the actual number of sales has been much lower. The fact that the West Coast region is 15.6% below normal while the New England region is 7.8% above normal merely means that from the standpoint of the long-term history of New England, real estate transfers are taking place 7.8% faster in that area than we would normally expect, while the figure of 15.6% below normal for the West Coast means that in that area transfers are taking place 15.6% less frequently than we would expect in relationship to the characteristics which the area has developed over a long period of years. It does not mean that more sales are taking place in New England than on the West Coast.

As a general rule, there are fewer transfers in relationship to the number of families in older, matured communities than there are in new, developing areas. In the former communities, real estate gradually gets into strong hands, with more rental property and less turnover.

REGIONAL PATTERNS OF REAL ESTATE & MORTGAGE ACTIVITY

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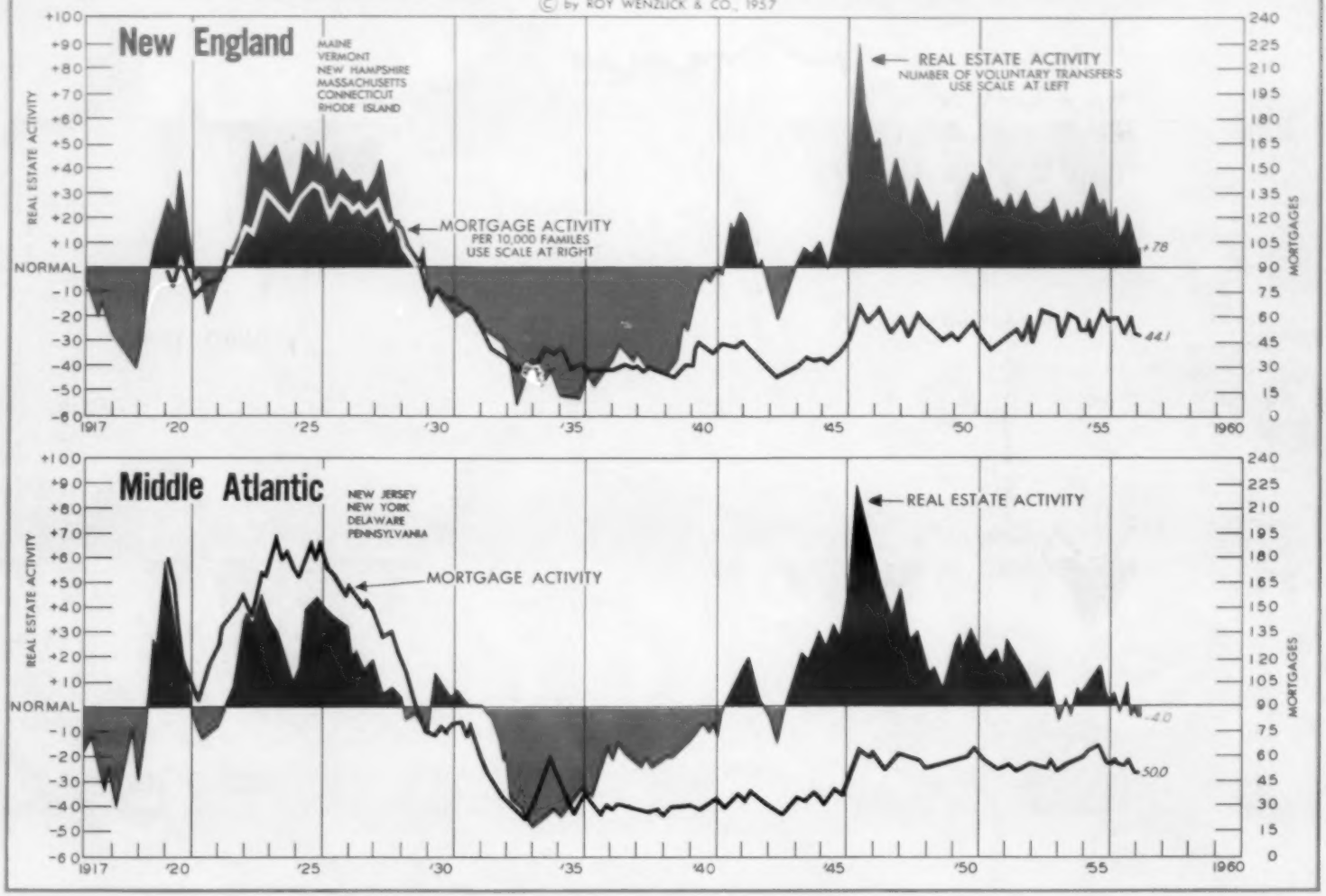

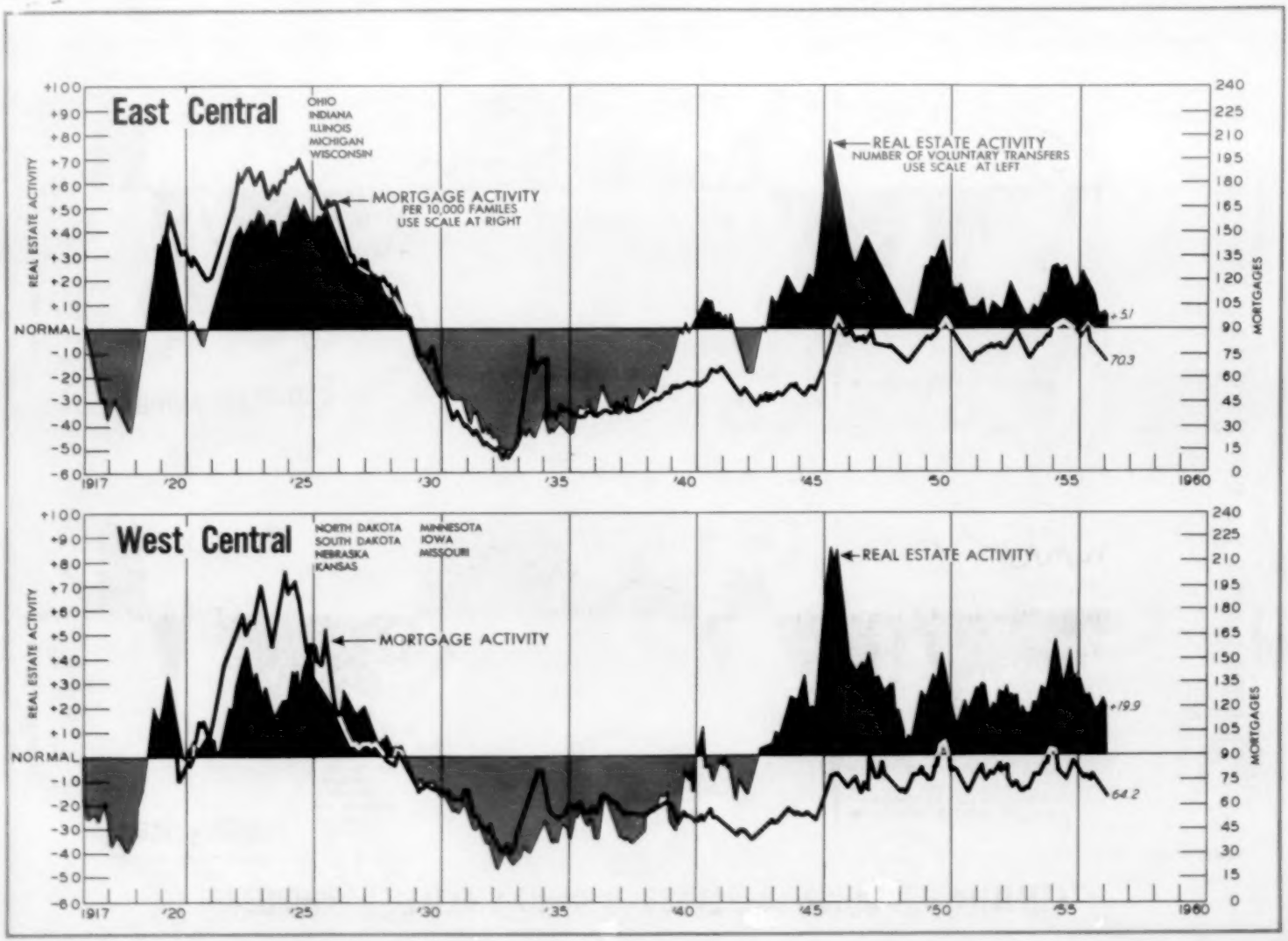
East Central
OHIO
INDIANA
ILLINOIS
MICHIGAN
WISCONSIN
MORTGAGE ACTIVITY
PER 10,000 FAMILES
USE SCALE AT RIGHT
REAL ESTATE ACTIVITY
NUMBER OF VOLUNTARY TRANSFERS
USE SCALE AT LEFT
REAL ESTATE ACTIVITY
MORTGAGES
+51
703
West Central
NORTH DAKOTA
SOUTH DAKOTA
NEBRASKA
KANSAS
MINNESOTA
IOWA
MISSOURI
MORTGAGE ACTIVITY
REAL ESTATE ACTIVITY
+19.9
64.2
NORMAL
1917
'20
'25
'30
'35
'40
'45
'50
'55
1960

REGIONAL PATTERNS OF REAL ESTATE & MORTGAGE ACTIVITY

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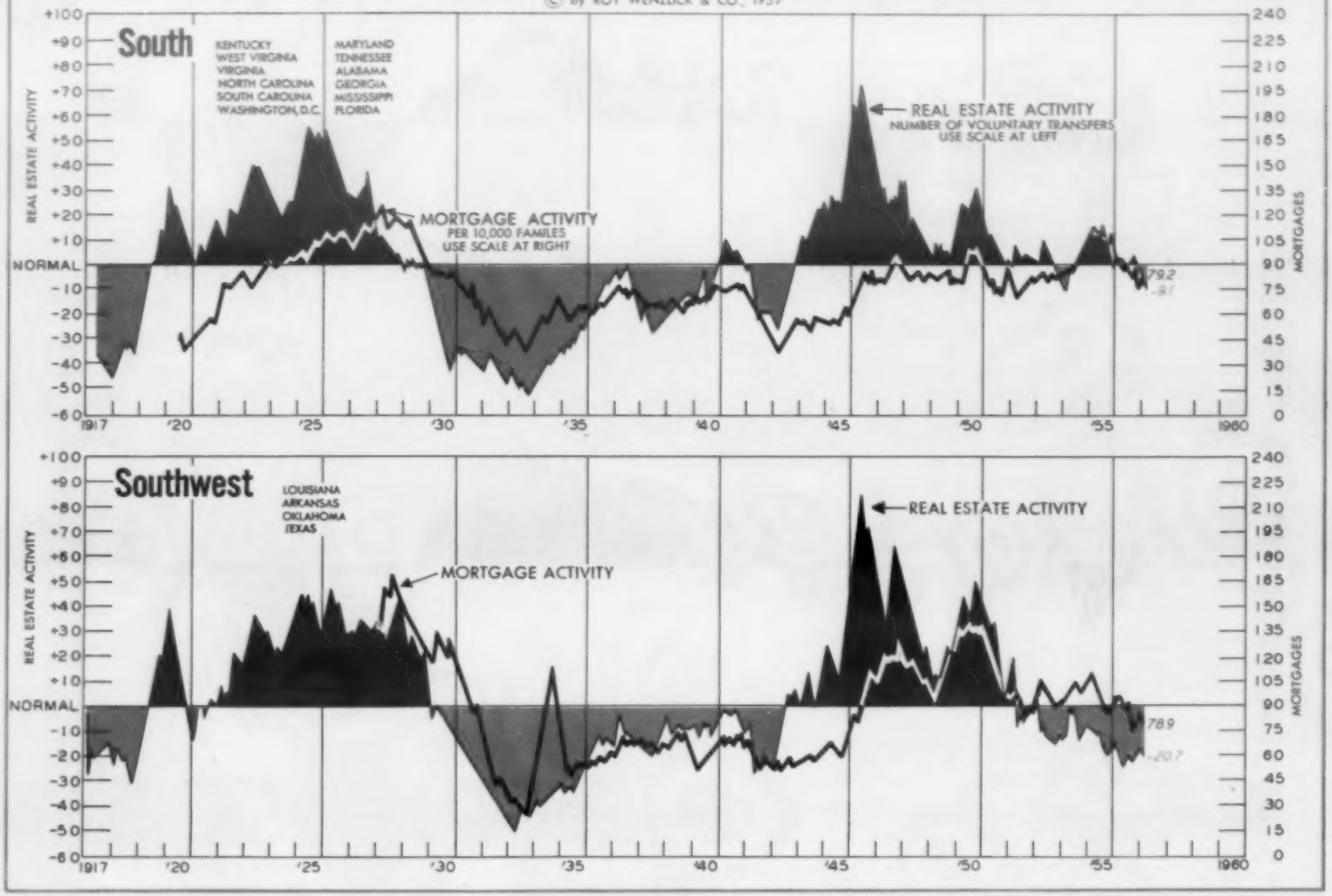
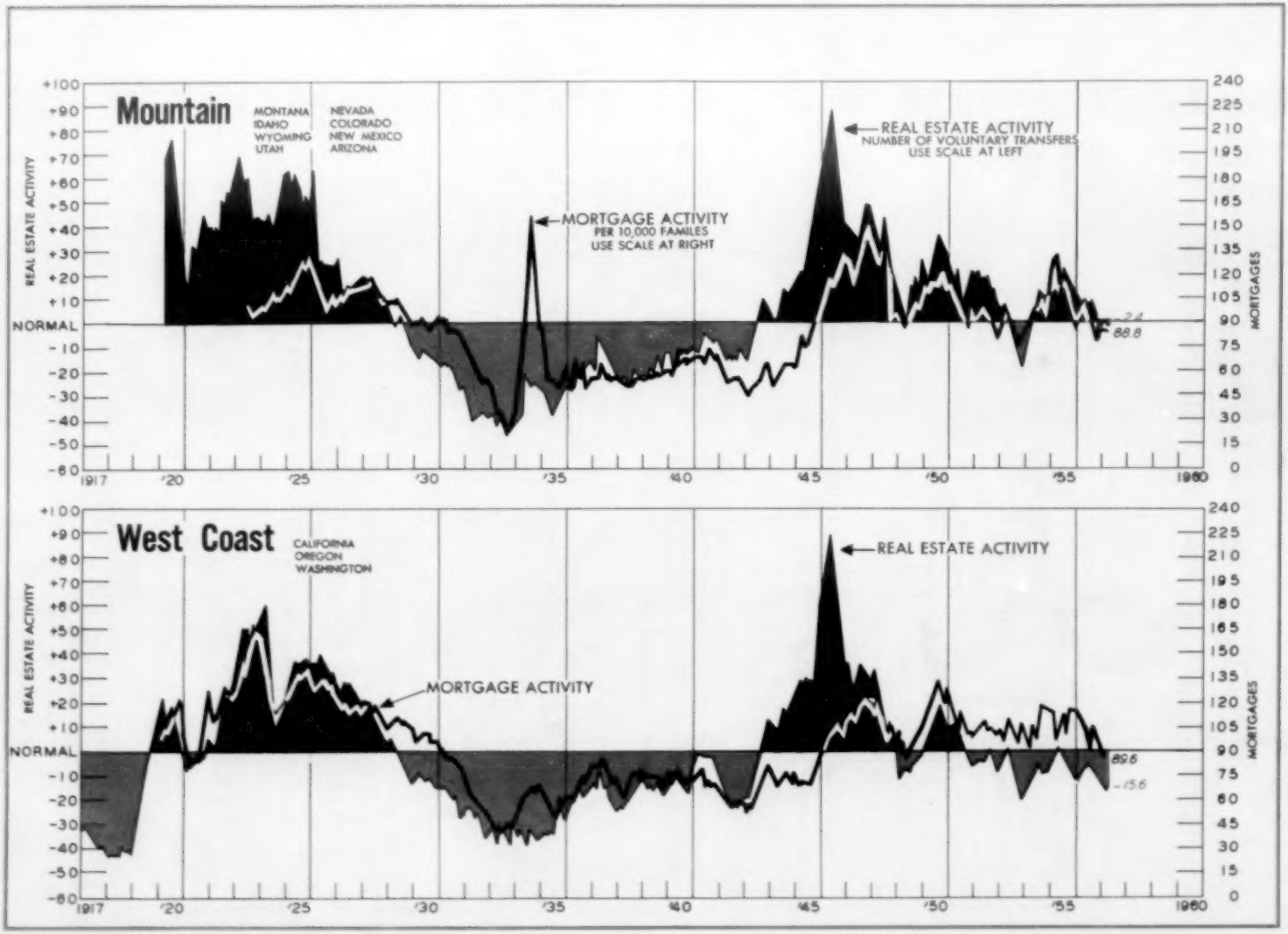



Mountain
MONTANA
IDAHO
WYOMING
UTAH
NEVADA
COLORADO
NEW MEXICO
ARIZONA
REAL ESTATE ACTIVITY
NUMBER OF VOLUNTARY TRANSFERS
USE SCALE AT LEFT
MORTGAGE ACTIVITY
PER 10,000 FAMILES
USE SCALE AT RIGHT
REAL ESTATE ACTIVITY
MORTGAGES
NORMAL
+100
+90
+80
+70
+60
+50
+40
+30
+20
+10
-10
-20
-30
-40
-50
-60
240
225
210
195
180
165
150
135
120
105
90
75
60
45
30
15
0
2.4
88.8
1917
'20
'25
'30
'35
'40
'45
'50
'55
1960
West Coast
CALIFORNIA
OREGON
WASHINGTON
REAL ESTATE ACTIVITY
MORTGAGE ACTIVITY
REAL ESTATE ACTIVITY
MORTGAGES
NORMAL
89.6
-15.6

ANALYSIS OF CONSTRUCTION VOLUME

THE dollar total of new construction in the United States has been setting new all-time records each year since 1947. Do these progressive records, set each year for the last 10, indicate that we are overbuilding? This is a very difficult question to answer, but on the chart opposite we have attempted to eliminate several variables from the picture. On this chart the solid blue line shows the total volume of new construction in billions of dollars, with 1957 estimated. The lighter blue line shows the same figures recharted on the basis of the purchasing power of money as it averaged out in the years 1947, 1948, and 1949. In other words, this second line would more nearly represent the physical volume of building, trying to eliminate the increase in dollar figures due to inflation. A third line on our chart, shown in red, attempts to adjust for the growth in population. This chart shows the volume of building in constant dollars on a per capita basis.

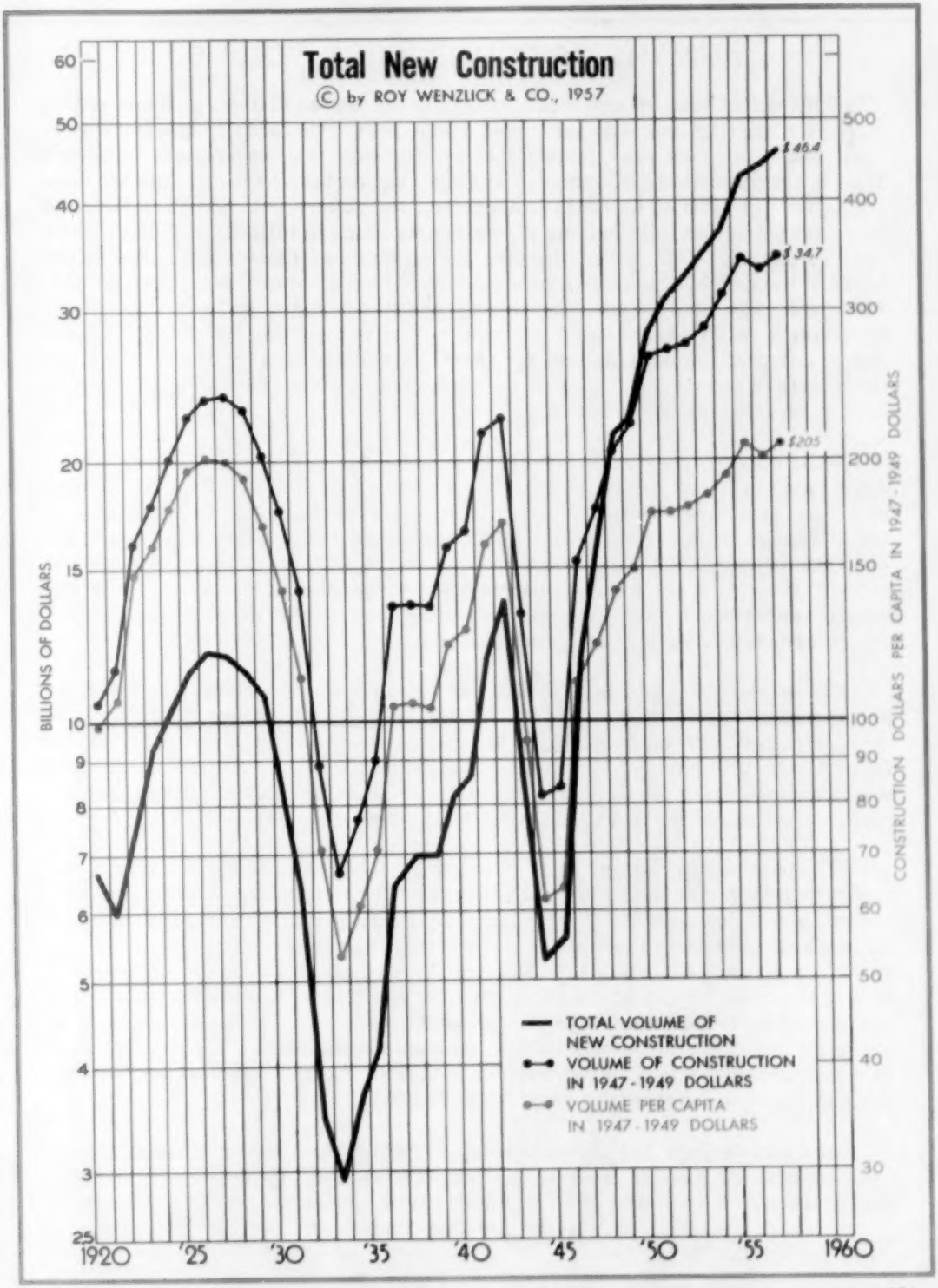
While none of these three lines tells a complete story, we believe they are of some value in trying to determine our present position. It will be noticed on this chart that, even corrected for changes in the purchasing power of money and for increases in population, today's total new construction exceeds the total construction being built at the peak of the boom of the 1920's. If we accumulate the volume of construction on a per capita basis since 1946 in comparison with the amount done from 1920 through 1931 (in each case a period of 12 years), we find the present has exceeded the corresponding period in the 1920's by about 8%.

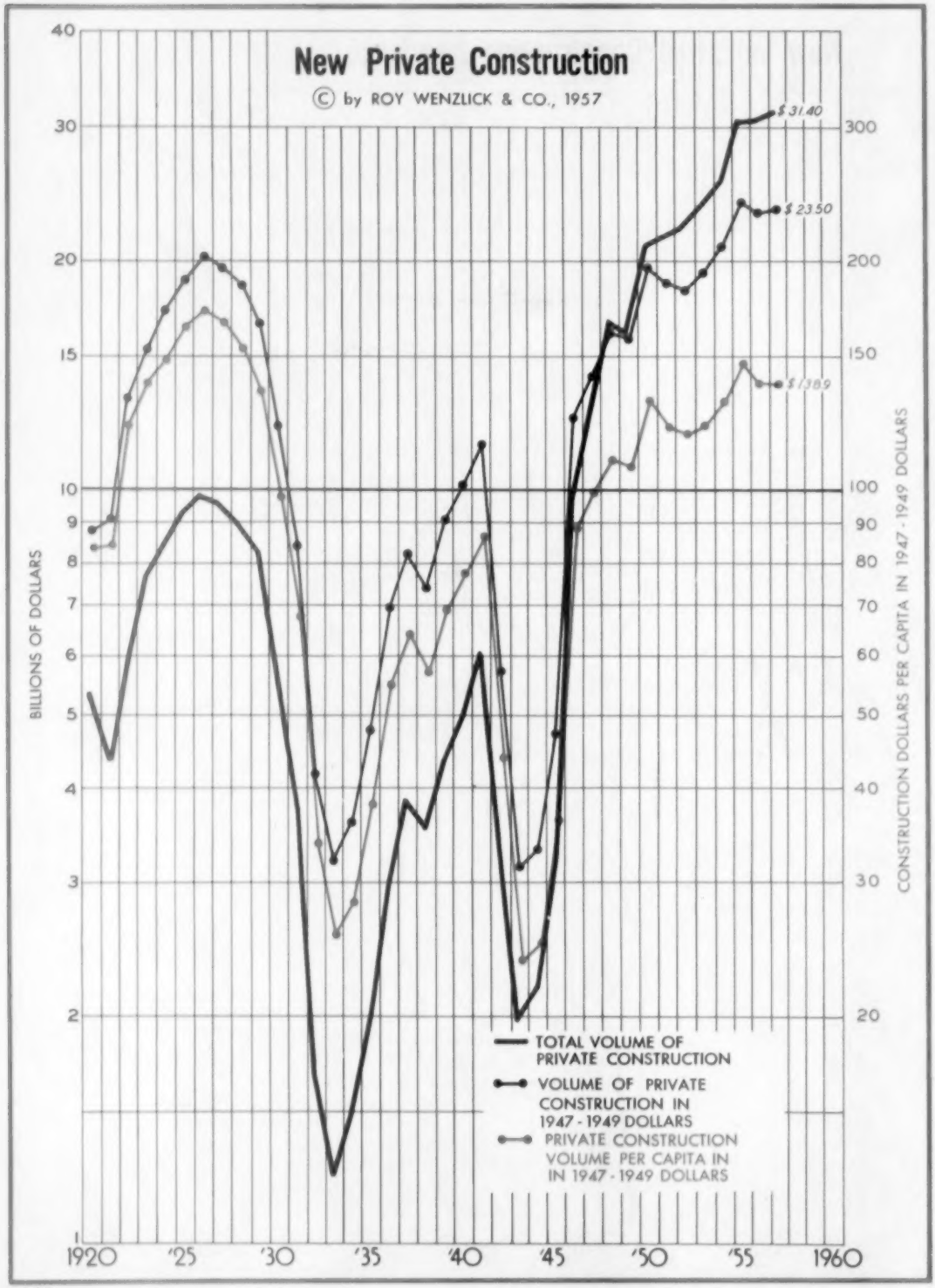
The second chart in this series shows new private construction on the same basis, actual dollar totals with a solid blue line, dollar totals adjusted for the changes in the value of the dollar with a lighter blue dot line, and the per capita figures, also adjusted for the value of the dollar, with a red line. This chart would indicate that in the current boom we have not built as much new private construction as we did in the corresponding boom of the 1920's.

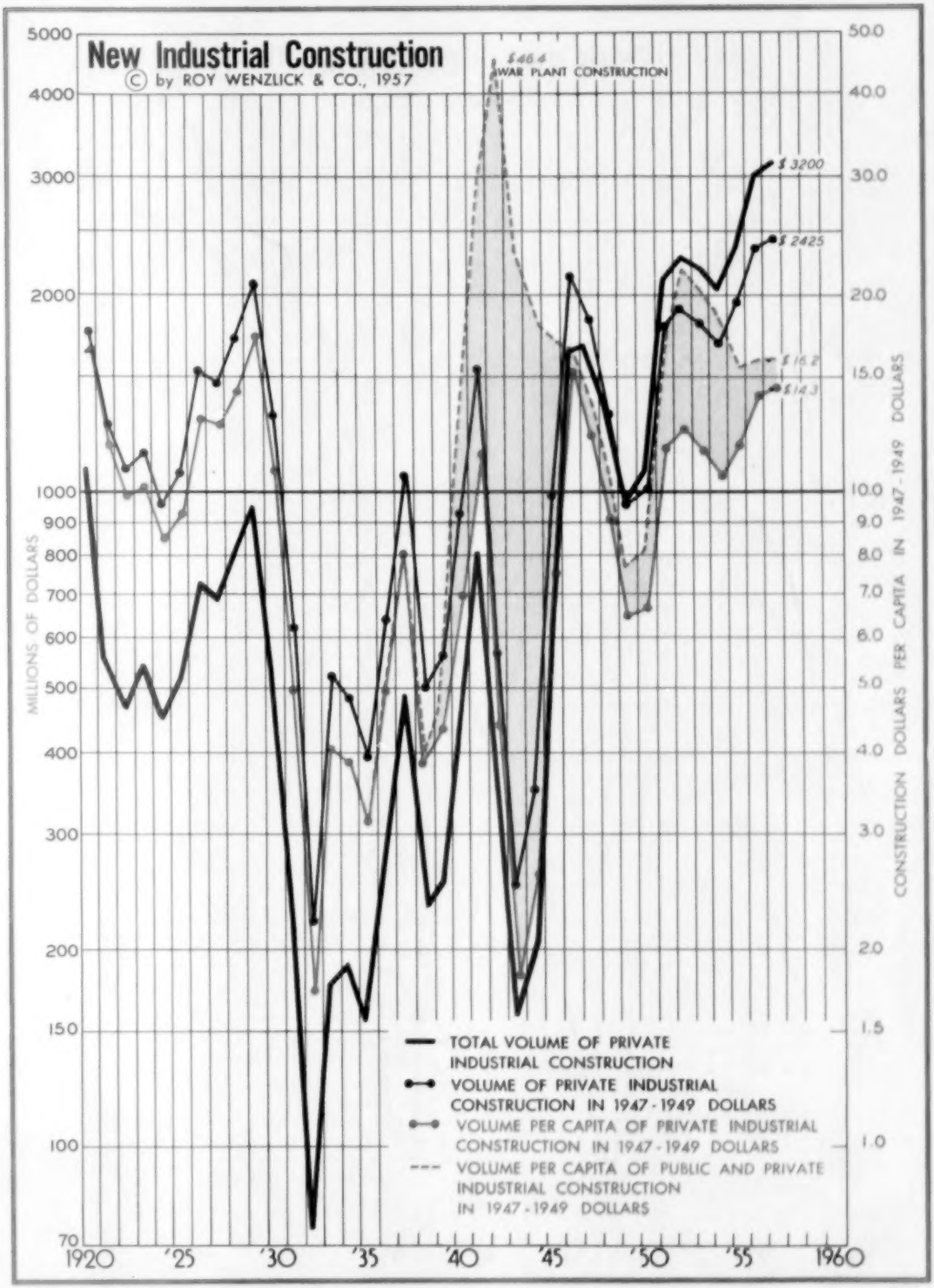
The chart on new industrial construction has a slight variation from the other charts in this series in that private and public industrial construction is shown on the same chart on a per capita basis, largely because of the tremendous influence the Federal Government has had in war periods through the building of large war materials and munitions plants. Some of these plants are naturally convertible to civilian uses, but it is difficult in this field to tell how much additional building might be done in the next few years. Clearly, we have built much more than we did in the building boom of the 1920's, but, on the other hand, the improvement in manufacturing techniques has made many plants obsolete and has been responsible for the construction of a great deal of additional space.

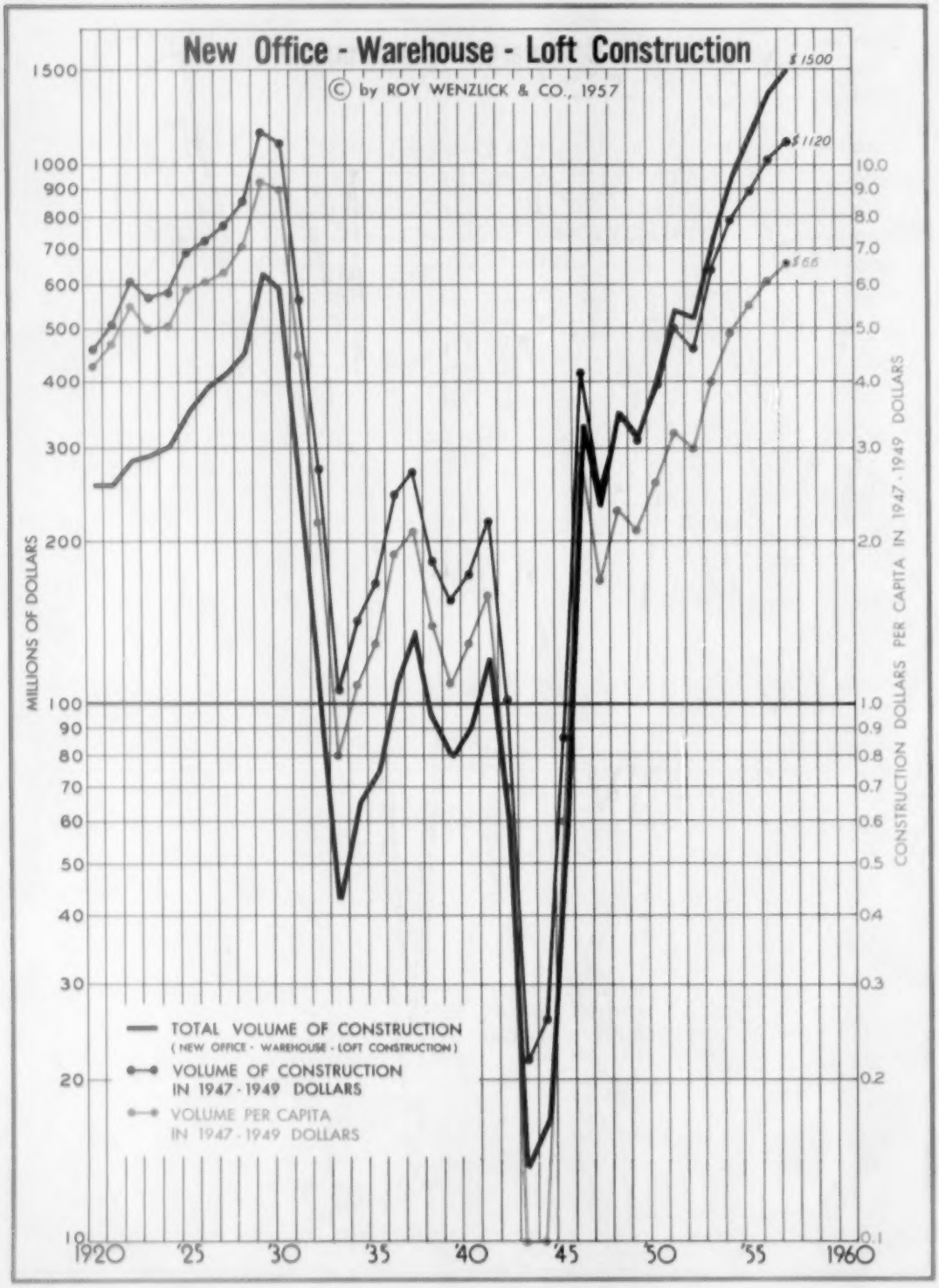
The chart on page 184 shows new office, warehouse, and loft construction. This chart would clearly indicate that we have not built as much space of this sort as we did in 1929 and 1930 on a per capita, constant dollar basis. It is

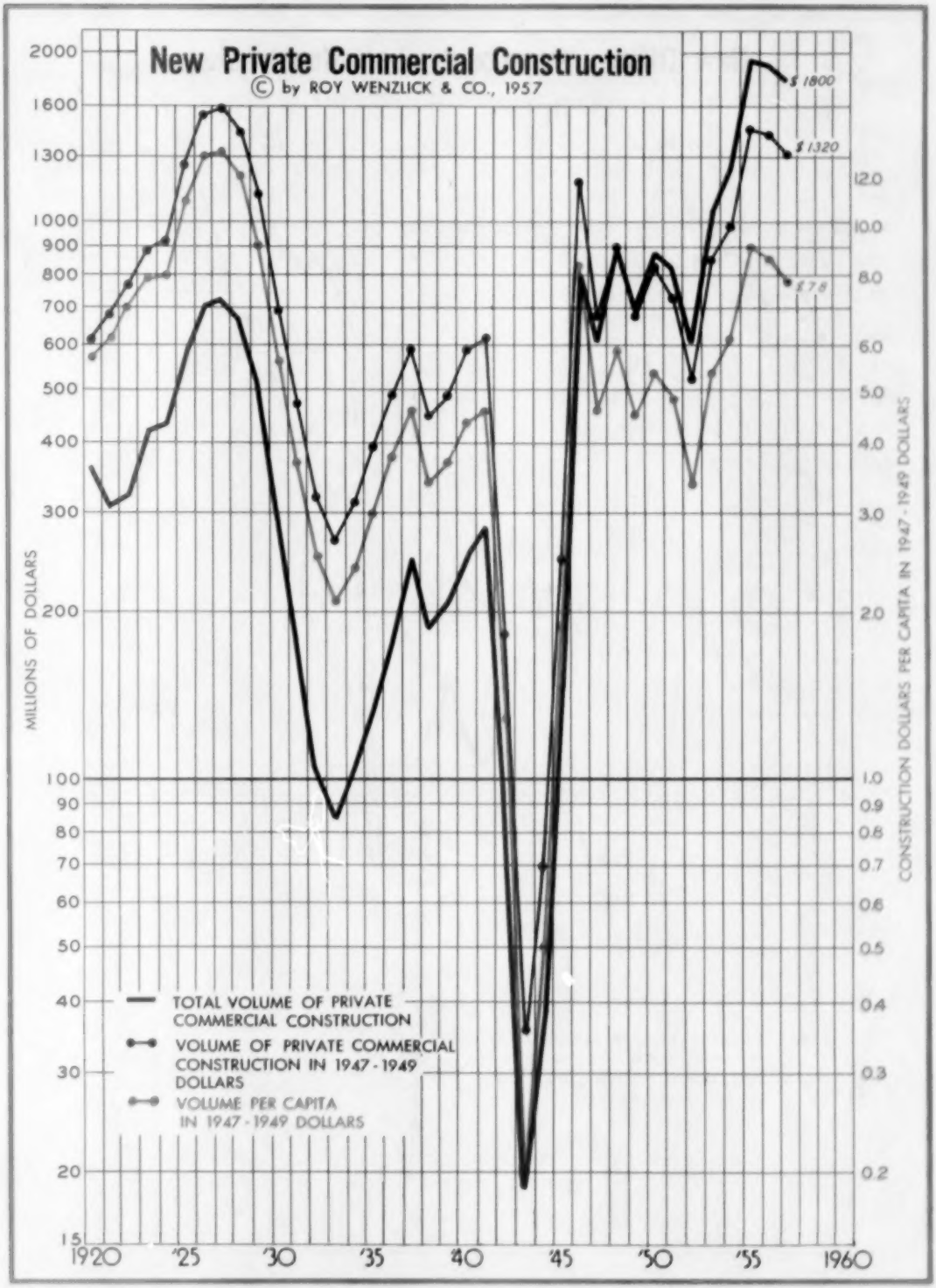
(cont. on page 189)

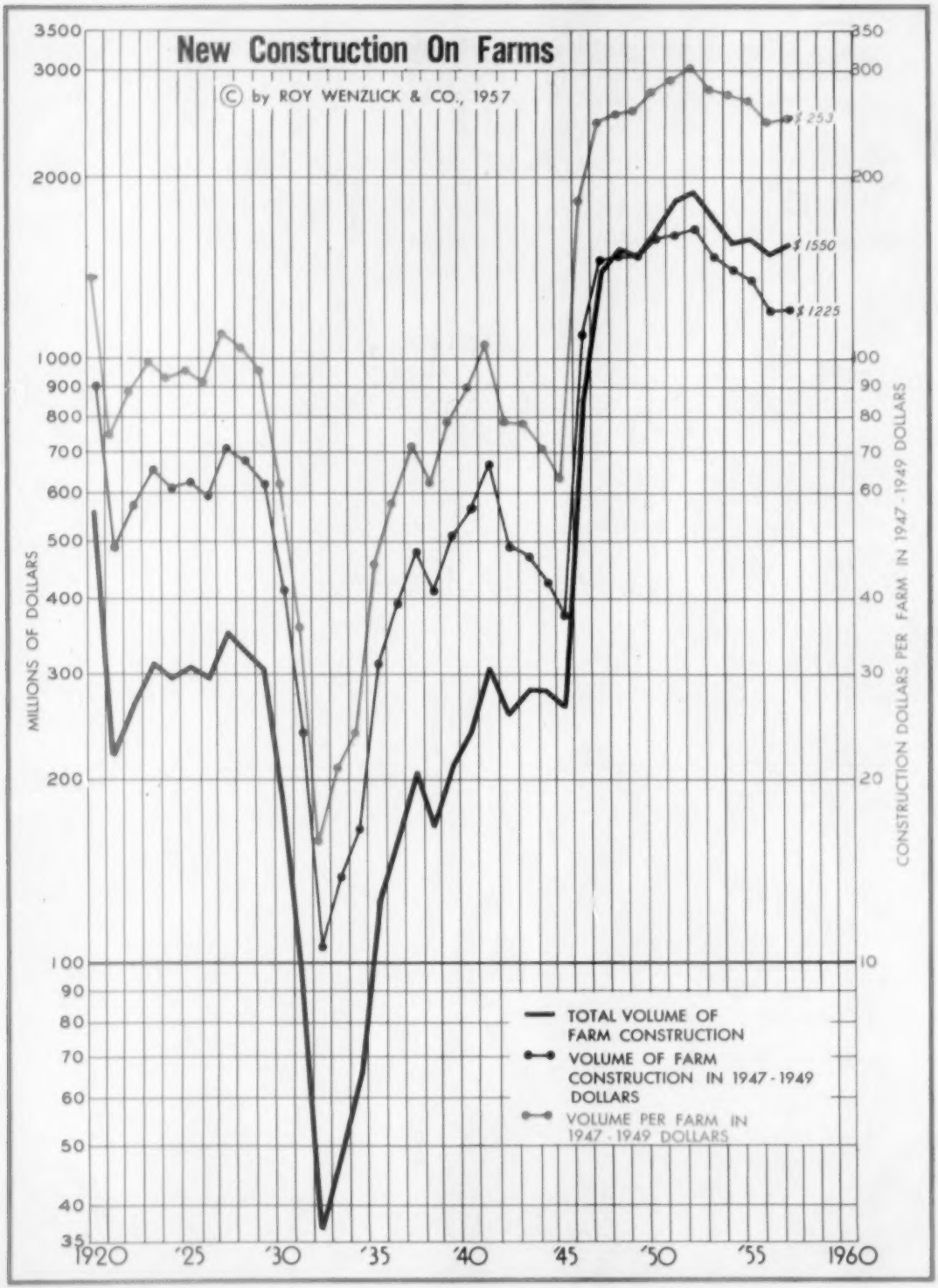

Total New Construction
© by ROY WENZLICK & CO., 1957
BILLIONS OF DOLLARS
CONSTRUCTION DOLLARS PER CAPITA IN 1947-1949 DOLLARS
$46.4
$34.7
$20.5
TOTAL VOLUME OF NEW CONSTRUCTION
VOLUME OF CONSTRUCTION IN 1947-1949 DOLLARS
VOLUME PER CAPITA IN 1947-1949 DOLLARS
1920
'25
'30
'35
'40
'45
'50
'55
1960

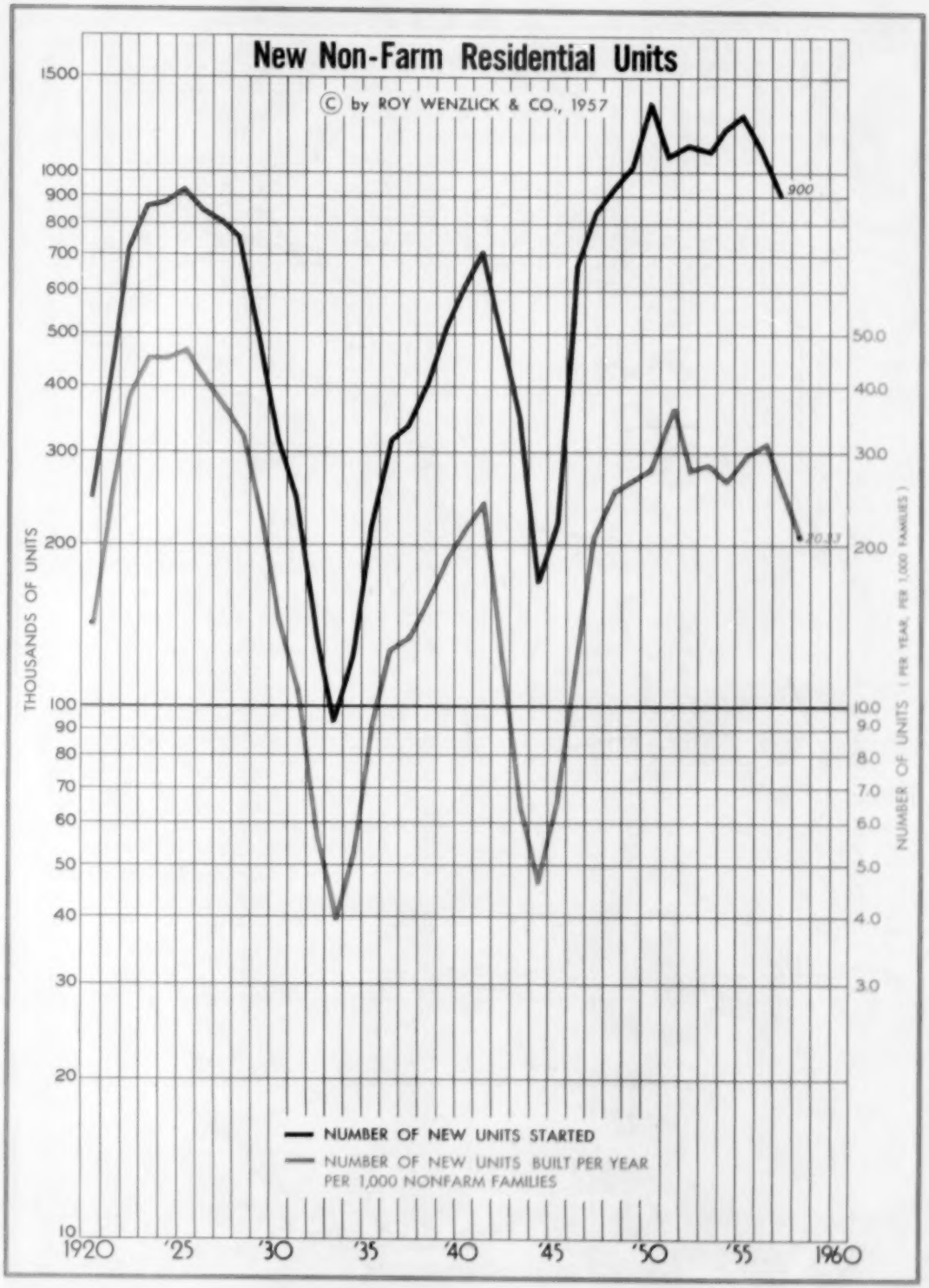

New Private Construction
© by ROY WENZLICK & CO., 1957
$31.40
$23.50
$13.89
BILLIONS OF DOLLARS
CONSTRUCTION DOLLARS PER CAPITA IN 1947-1949 DOLLARS
40
30
20
15
10
9
8
7
6
5
4
3
2
1
300
200
150
100
90
80
70
60
50
40
30
20
1920
'25
'30
'35
'40
'45
'50
'55
1960
TOTAL VOLUME OF PRIVATE CONSTRUCTION
VOLUME OF PRIVATE CONSTRUCTION IN 1947-1949 DOLLARS
PRIVATE CONSTRUCTION VOLUME PER CAPITA IN IN 1947-1949 DOLLARS

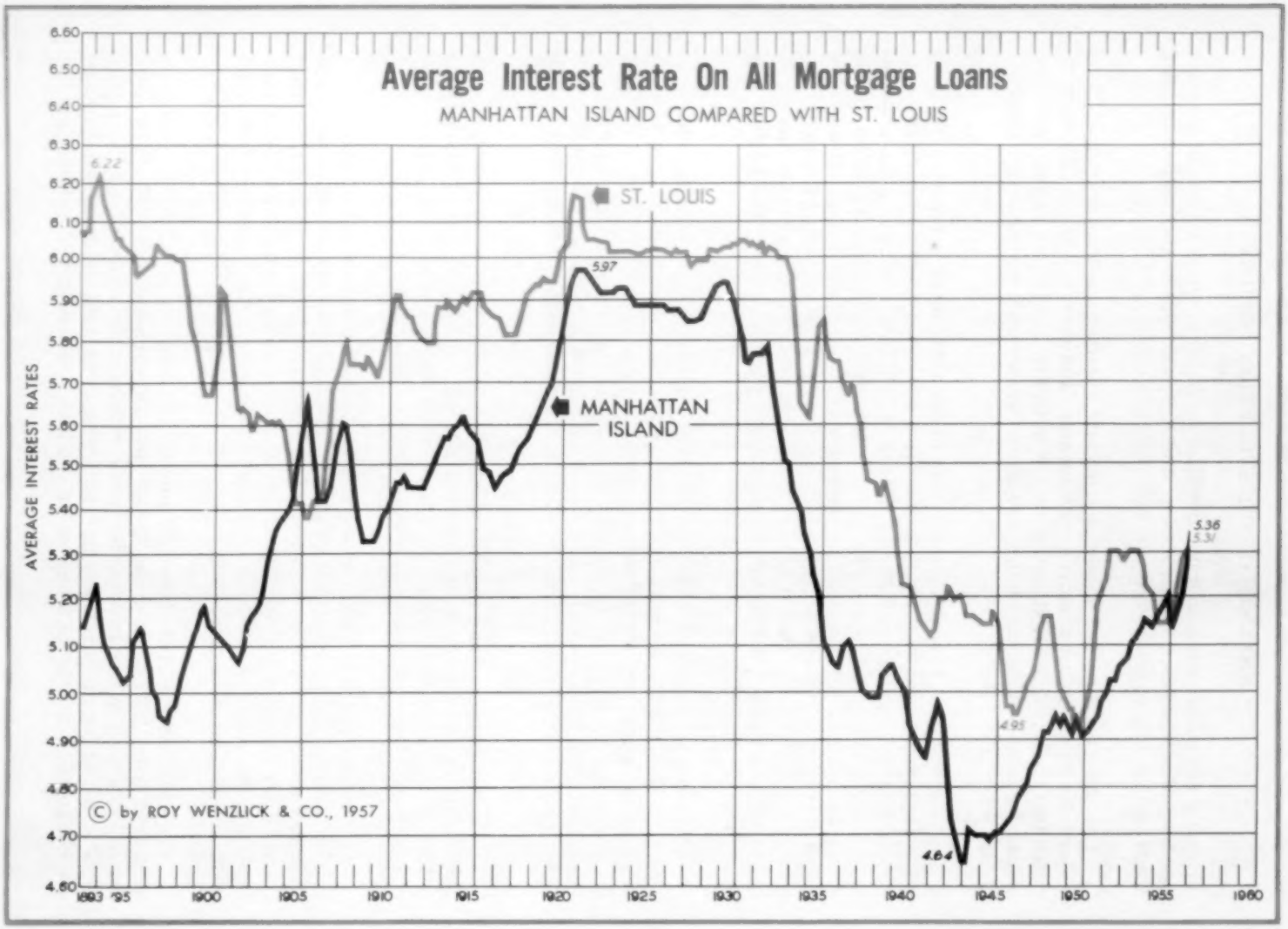

New Industrial Construction
© by ROY WENZLICK & CO., 1957
$46.4
WAR PLANT CONSTRUCTION
$ 3200
$ 2425
$ 16.2
$ 14.3
MILLIONS OF DOLLARS
CONSTRUCTION DOLLARS PER CAPITA IN 1947-1949 DOLLARS
5000
4000
3000
2000
1000
900
800
700
600
500
400
300
200
150
100
70
50.0
40.0
30.0
20.0
15.0
10.0
9.0
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.5
1.0
1920
'25
'30
'35
'40
'45
'50
'55
1960
TOTAL VOLUME OF PRIVATE INDUSTRIAL CONSTRUCTION
VOLUME OF PRIVATE INDUSTRIAL CONSTRUCTION IN 1947-1949 DOLLARS
VOLUME PER CAPITA OF PRIVATE INDUSTRIAL CONSTRUCTION IN 1947-1949 DOLLARS
VOLUME PER CAPITA OF PUBLIC AND PRIVATE INDUSTRIAL CONSTRUCTION IN 1947-1949 DOLLARS


New Office - Warehouse - Loft Construction
© by ROY WENZLICK & CO., 1957
$1500
$1120
$66
MILLIONS OF DOLLARS
CONSTRUCTION DOLLARS PER CAPITA IN 1947-1949 DOLLARS
1500
1000
900
800
700
600
500
400
300
200
100
90
80
70
60
50
40
30
20
10
10.0
9.0
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
1920
'25
'30
'35
'40
'45
'50
'55
1960
TOTAL VOLUME OF CONSTRUCTION
(NEW OFFICE - WAREHOUSE - LOFT CONSTRUCTION)
VOLUME OF CONSTRUCTION
IN 1947-1949 DOLLARS
VOLUME PER CAPITA
IN 1947-1949 DOLLARS


New Private Commercial Construction
© by ROY WENZLICK & CO., 1957
$ 1800
$ 1320
$ 178
MILLIONS OF DOLLARS
CONSTRUCTION DOLLARS PER CAPITA IN 1947 - 1949 DOLLARS
2000
1600
1300
1000
900
800
700
600
500
400
300
200
100
90
80
70
60
50
40
30
20
15
12.0
10.0
8.0
6.0
5.0
4.0
3.0
2.0
1.0
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
1920
'25
'30
'35
'40
'45
'50
'55
1960
TOTAL VOLUME OF PRIVATE COMMERCIAL CONSTRUCTION
VOLUME OF PRIVATE COMMERCIAL CONSTRUCTION IN 1947 - 1949 DOLLARS
VOLUME PER CAPITA IN 1947 - 1949 DOLLARS


New Construction On Farms
© by ROY WENZLICK & CO., 1957
MILLIONS OF DOLLARS
CONSTRUCTION DOLLARS PER FARM IN 1947-1949 DOLLARS
$ 253
$ 1550
$ 1225
TOTAL VOLUME OF FARM CONSTRUCTION
VOLUME OF FARM CONSTRUCTION IN 1947-1949 DOLLARS
VOLUME PER FARM IN 1947-1949 DOLLARS
1920
'25
'30
'35
'40
'45
'50
'55
1960


New Non-Farm Residential Units
© by ROY WENZLICK & CO., 1957
THOUSANDS OF UNITS
NUMBER OF UNITS (PER YEAR PER 1,000 FAMILIES)
1500
1000
900
800
700
600
500
400
300
200
100
90
80
70
60
50
40
30
20
10
50.0
40.0
30.0
20.0
10.0
9.0
8.0
7.0
6.0
5.0
4.0
3.0
900
20.3
1920
'25
'30
'35
'40
'45
'50
'55
1960
NUMBER OF NEW UNITS STARTED
NUMBER OF NEW UNITS BUILT PER YEAR PER 1,000 NONFARM FAMILIES


Average Interest Rate On All Mortgage Loans
MANHATTAN ISLAND COMPARED WITH ST. LOUIS
AVERAGE INTEREST RATES
ST. LOUIS
MANHATTAN ISLAND
6.22
5.97
4.95
4.64
5.36
5.31
© by ROY WENZLICK & CO., 1957
6.60
6.50
6.40
6.30
6.20
6.10
6.00
5.90
5.80
5.70
5.60
5.50
5.40
5.30
5.20
5.10
5.00
4.90
4.80
4.70
4.60
1893 '95
1900
1905
1910
1915
1920
1925
1930
1935
1940
1945
1950
1955
1960

(cont. from page 180)

probably loft construction in this classification which is off by a greater percentage than office building construction, and it would appear that office building construction will remain high for another year or two, at least.

The chart on page 185 shows new private commercial construction. This covers the construction of stores, restaurants, and garages, and it clearly indicates that, in spite of all shopping center activities, on a per capita, constant dollar basis we are building much less space than we were during the corresponding period in the 1920's.

In studying this chart it should be kept in mind that today's supermarkets and shopping centers will do a far larger volume per square foot of sales area than the old type of neighborhood store. Accordingly, it takes fewer square feet of retail space now to take care of a million dollars' worth of retail sales than it did in the 1920's. It seems to us, however, that the discrepancy between the amount of building we are doing now in this field and the amount that was done in the 1920's is so great that it cannot be accounted for solely on this basis. It would lead us to believe that we may continue to build commercial space at a fairly rapid rate in the next few years.

The chart on page 186 is one of the most interesting and peculiar charts in this series. This shows new construction on farms. It is peculiar, in that the unadjusted figures and the adjusted figures all show present volume of building far exceeding the building of the 1920's, and this is particularly true when the figures are put on a per farm basis. We are now averaging, on a per farm basis, from two to three times the volume of construction on farms that we had in the 1920's.

In order to understand this we should remember that in the average farm community farmers were having a rather difficult time during the 1920's. Farm values per acre declined every year from 1920 through 1933. The greater part of this period was one of tremendous activity in the cities.

One other reason for the tremendous amount of construction on farms on a per farm basis at the present time is that farms now contain many more acres than they did in the 1920's, with a smaller number of persons needed to operate these larger farms. The mechanization of the farms has required better buildings, and the higher per farm income has made possible farm homes with most of the conveniences of urban life.

The chart on page 187 shows the number of new nonfarm dwelling units built each year from 1920 to the present, with 900,000 estimated for 1957. The number of units built in this building boom has exceeded the number built during the 1920's, but at the present time, in relationship to the total nonfarm families, we are not building nearly as many as we did then. At the top of the boom of the

1920's we were building 47 new dwelling units per year per 1,000 families. At the peak of this boom we built slightly more than 37, and this year we will build less than 21.

We believe that with the rate of population growth which will prevail in the United States during the next 25 or 30 years, we will eventually see a rather large increase in the rate of residential building, but we think it highly probable that before this increase starts, a period of readjustment will intervene.

LONG-TERM TRENDS OF MORTGAGE INTEREST RATES

THE chart on page 188 shows a comparison of recorded mortgage interest rates on Manhattan Island and St. Louis from 1893 to the present, a period of 65 years. In a larger sense, the comparison of these two lines can be taken as an indication of what has happened to interest rates on larger buildings and on single-family residences. In Manhattan, most of the loans are on multifamily buildings in the residential field and multistoried buildings in other fields. In St. Louis, most of the loans are on single-family residences.

Before any conclusions are drawn from the two lines, a few facts should be noted. 1. The recorded interest rates do not reflect discounts on FHAs and VAs, nor do they reflect points paid for making the loan. 2. There is a time lag of probably several months between the time the loan is negotiated and the time the mortgage is recorded. It is probable that the time lag in Manhattan and on larger buildings is longer than it is on the average residential building. 3. Manhattan rates, as a rule, are lower than other rates in the United States because of the large number of financial institutions located in New York City, which naturally prefer loans that can be personally inspected, in areas the peculiarities of which are known.

There are a number of observations which can be made from this chart. In the first place, in spite of the rapid rise in interest rates on Manhattan, a rise which has continued almost without interruption for about 13 years, rates are still relatively low when compared with the last 65 years.

As we would naturally expect, mortgage interest rates in St. Louis have been considerably higher than they have been in New York. There has been only one short period in the past when average interest rates on Manhattan Island ran higher than they did in St. Louis and, after 50 years, this situation is again occurring. If adjustments could be made in the St. Louis line for discounts, we feel sure that the St. Louis interest rate would run considerably higher than the Manhattan rate, but without this adjustment the Manhattan rate at the present time is slightly higher than the rate in St. Louis.

The St. Louis rate at the present time, even more than the Manhattan rate, while considerably higher than 6 years ago, is still relatively low in comparison with the entire period. It seems logical that for some time in the future, interest rates will be considerably higher than those to which we became accustomed during the period of abnormally easy money.